

1 Q. WHAT IS THE SUBJECT OF YOUR TESTIMONY?

2 A. I will testify regarding the appropriate demand for calculation of the traffic
3 sensitive access charge rate.
4

5 Q. ARE THERE UNUSUAL CHALLENGES ASSOCIATED WITH THE
6 DETERMINATION OF ACCESS MINUTES THIS YEAR?

7 A. Yes. The challenge is presented by the fact that AECA, GCI and the Commission
8 itself all agree that Alascom, Inc. (AT&T Alascom) is not reporting all of its intrastate
9 interexchange traffic. As a result, the number of intrastate interexchange minutes
10 measured and billed in 2003 is substantially less than the true number of actual
11 intrastate interexchange minutes in 2003. As AECA recognized in its testimony, the
12 challenge in this situation is to derive a solution that treats all parties fairly, including
13 not only AECA and its member LECs but also access charge ratepayers (including
14 GCI) other than the misreporting party.

15 Q. WHY IS THERE AN ISSUE OF FAIR TREATMENT OF GCI?

16 A. As I will demonstrate with specific numbers later in my testimony, GCI is affected
17 because the access charge rate is higher than appropriate if all minutes are not
18 included in the denominator of the access charge rate calculation. GCI must then pay
19 that higher rate.

20 Q. PLEASE SUMMARIZE YOUR CONCLUSIONS.

21 A. My primary conclusion is that demand should be based on the actual level of
22 correctly reported demand, not based on a lower level of demand that results from
23 known misreporting of minutes by AT&T Alascom. Only by using the correct, fully
24 reported level of demand will both GCI and AECA be treated fairly
25
26

1 DISCUSSION

2 Q. PLEASE BEGIN YOUR TESTIMONY BY DESCRIBING THE UNDERLYING
3 FACTS ON WHICH YOUR TESTIMONY IS BASED.

4 A. For the most part, I accept the underlying facts as presented by AECA. These
5 include the following:

6 1. Total Filed Demand, before any adjustments or corrections, was 365,178,614
7 minutes; this is the actual billed demand for 2003 for the filing companies and the
8 demand from last years proceedings for the companies not filing this year. In the
9 remainder of this testimony I will refer to this as 2003 billed demand.

10 2. Substantial numbers of intrastate access minutes of AT&T Alascom were not
11 measured and billed in 2003. The best estimate of the number of AT&T Alascom
12 intrastate minutes that were not properly measured and billed is 26,013,617.

13 3. AT&T Alascom should be required to report minutes correctly, and at some point
14 AT&T Alascom will be required to pay access charges on the minutes that are now
15 being misreported.

16 Q. BASED ON THESE UNDERLYING FACTORS, WHAT DEMAND SHOULD
17 BE USED FOR CALCULATING THE TRAFFIC SENSITIVE SWITCHING
18 RATE?

19 A. The appropriate demand is 391,192,231 minutes. This is the actual number of
20 fully reported access minutes in 2003. This amount includes the 2003 billed minutes
21 plus the best estimate of the amount still to be billed to AT&T Alascom.

22 Q. PLEASE EXPLAIN WHY YOU BELIEVE THAT ACTUAL 2003 DEMAND
23 EXCEEDED THE 365,178,614 BILLED MINUTES?

24 A. AECA's testimony in this case, AECA's petition to the Commission filed Dockets
25 U-04-005 and U-04-006, and the Commission's decision in Docket U-97-120 all
26 indicate that AT&T is reporting intrastate debit card minutes as interstate minutes.

1 AECA's testimony discusses these minutes and indicates that it expects to eventually
2 be paid for these minutes.

3
4 Q. DOES AT&T ALASCOM DENY THAT IT IS MISREPORTING INTRASTATE
5 MINUTES?

6 A. AT&T Alascom admits that it is reporting 907 to 907 calls on its debit cards as
7 interstate rather than intrastate, but it has made a legal argument that these calls are
8 "enhanced".

9
10 Q. DO YOU HAVE ANY COMMENTS ON THE PRELIMINARY AUDIT
11 RESULTS REPORTED BY AECA.?

12 A. At page 7 of his testimony, Mr. Reed reports the audit findings from a review of
13 AT&T Alascom's records, including the fact that AT&T Alascom's Automatic
14 Message Accounting and Exchange Message Interface records have stripped out
15 identifying information and substituted erroneous information in the call records.

16 GCI has also conducted test calling and reached the same conclusions. GCI
17 has made twenty test calls each work day for the last six months using AT&T debit
18 cards. The calls were made from an Alaska phone number to an Alaska phone
19 number, and because they terminated on a GCI number we were able to trace the call
20 back into our network. Many of the inbound calls showed either an interstate
21 originating number or had no originating number.

22 Q. ARE THE PROBLEMS ASSOCIATED SOLELY WITH DEBIT CARDS?

23 A. No. GCI has also made test calls by dialing 1-800-CALL-ATT, which is the
24 number that can be used for credit card calls and collect calls. I made two of these
25 calls myself. The credit card calls made over 1-800-CALL-ATT came back with an
26 interstate originating number, much like the debit card calls. It is important to point
27 out that these 1-800-CALL-ATT calls do not have an involuntary advertisement and

1 that AT&T Alascom does not even have a legal argument they are "enhanced."
2 Nonetheless, they are being reported as interstate rather than intrastate.

3 However, the collect calls placed using 1-800-CALL-ATT came back showing
4 the correct 907 originating number. In other words, it appears they are reported
5 correctly.

6
7 Q. WHAT CONCLUSION DO YOU DRAW FROM THESE TEST CALLS?

8 A. It reinforces my opinion that AT&T chooses the ANI to return and is capable of
9 adjusting its platforms to preserve and forward the actual ANI when so directed by the
10 Commission. AT&T should be able to respond to a directive from the Commission to
11 preserve and forward the actual ANI, as it does on collect calls today.

12 Q. WOULD IT BE POSSIBLE TO IDENTIFY PAST INTRASTATE CALLS
13 WHOSE CALL RECORDS HAVE BEEN ALTERED TO REFLECT AN
14 INTERSTATE ORIGINATING NUMBER?

15 A. I believe it would. GCI's test calls have consistently recorded a limited number of
16 interstate originating numbers that repeatedly appear as substitutes for the actual 907
17 originating numbers. AT&T should have records of its debit card platform numbers
18 as well. Records with these numbers could be collected and quantified. Also, in
19 recent filings in Docket U-04-005 AT&T Alascom claims that it can identify which
20 past calls were intrastate.

21 Q. HOW DID YOU DETERMINE THE ACTUAL NUMBER OF INTRASTATE
22 ACCESS MINUTES IN 2003, INCLUDING ACTUAL MINUTES THAT HAVE
23 NOT BEEN REPORTED BY AT&T ALASCOM?

24 A. In its testimony, AECA itself attributes the perceived drop in demand between
25 2002 and 2003 to the misreported minutes. AECA confirmed this in answer to data
26 requests by GCI.

1
2 In response to GCI Data Request No. 1 asking AECA for its best estimate of
3 the number of minutes misreported in 2003, AECA stated that "AECA's best estimate
4 of the number of intrastate minutes that were misreported as interstate minutes for the
5 filing companies for 2003 is reflected in the pro forma adjustment to demand
6 quantified in Schedule V of the Prepared Direct Testimony of Judith A Colbert."
7 Then, in response to GCI Data Request No. 2 asking AECA for its best estimate of
8 what 2003 demand would have been if all intrastate minutes had been properly
9 reported, AECA answered that "AECA's best estimate of the 2003 Actual Demand
10 (minutes) if all intrastate filing companies had been properly reported would be at least
11 the 2003 Actual Demand (minutes) summarized in Schedule 1 of the Prepared Direct
12 Testimony of Judith A. Colbert plus the proposed pro forma adjustment to demand
13 described in Response to Data Request No. 1 above."

13 Q. WHAT IS THE SIGNIFICANCE OF THESE RESPONSES BY AECA?

14 A. There are two important points. First, AECA agrees that the actual demand in
15 2003, if properly reported, was at least 391,192,231. Additionally it means that
16 AECA agrees that there was actually no decline in minutes in 2003 compared to 2002,
17 there was only a misreporting of minutes.

18 Q. WHAT NUMBER OF MINUTES DOES AECA PROPOSE TO USE FOR
19 DEMAND?

20 A. AECA proposes to use 339,164,997. AECA calculates that number by reducing
21 2003 billed demand, 365,178,614, by the 26,013,617, the same amount as its best
22 estimate of misreported demand in 2003.

23
24 Q. PLEASE SUMMARIZE THE VARIOUS DIFFERENT CALCULATIONS OF
25 2003 DEMAND DISCUSSED ABOVE.

26 A. There are three different numbers:

1 391,192,231 minutes, which is the best estimate of the actual number of intrastate
2 access minutes in 2003;

3 365,178,614 minutes, which is the number of intrastate access minutes billed in 2003
4 for the filing companies and the demand for non-filing companies carried over from
5 last year;

6 and 339,164,997 minutes, which is the number of 2003 billed minutes reduced by the
7 amount of the drop in billed minutes from 2003 to 2003.

8
9 Q. WHICH NUMBER ARE YOU RECOMMENDING BE USED FOR DEMAND
10 FOR CALCULATING RATES?

11 A. 391,192,231

12 Q. WHY?

13 A. As can be shown by the actual calculations below, using the best estimate of the
14 actual, fully reported number of intrastate access minutes in 2003 is the fairest way
15 for all parties involved. Using any lower number would cause GCI irreparable harm
16 and lead to over-recovery by AECA.

17 Q. BEFORE PROCEEDING WITH YOUR CALCULATIONS, IS THERE ANY
18 OTHER UNDERLYING BASIS FOR YOUR CALCULATION THAT HAS NOT
19 BEEN DISCUSSED?

20 A. Yes. My proposal and my calculations are based on the expectation that AT&T
21 Alascom will ultimately be required to pay access charges on the intrastate traffic that
22 is currently being misreported as interstate traffic.

23
24 Q. IS THAT EXPECTATION REASONABLE?

25 A. Yes, for a number of reasons. The Commission's decision in U-97-120 clearly
26 held that these minutes are intrastate and AT&T Alascom has provided assurances

1 that it will pay for the minutes if it does not win its case at the FCC. As AECA
2 argued in its filing in Docket U-04-005, AT&T Alascom's arguments in the FCC
3 proceeding are "untenable" and "legal authority supporting the existing law is
4 overwhelming...". (AECA Complaint, U-04-005, p. 17). Finally, I understand from
5 our lawyer that virtually all of the comments filed in the FCC proceeding disagreed
6 with AT&T Alascom's contention that its debit card calls were "enhanced."

7
8 Q. PLEASE PROCEED. BEGIN BY EXPLAINING WHY 391,192,231 SHOULD
9 BE USED?

10 A. As previously discussed, AECA's best estimate is that actual 2003 demand, if all
11 demand had been reported properly, would be "at least" that level. Furthermore,
12 demand for 2002 was at virtually the same level, showing that demand did not
13 actually decline in 2003, there was only misreporting.

14 If rates for 2004 are established using this level of demand and if actual, fully
15 reported demand continues to remain stable, then GCI and AT&T Alascom will each
16 pay the proper amount and AECA will recover its revenue requirement.

17 Q. WHAT HAPPENS IF A LOWER LEVEL OF DEMAND IS USED?

18 A. Let's assume that AECA's proposed demand of 339,164,997 is used. Remember,
19 this is the level of demand that AECA expects to bill in 2004 if the previous level of
20 misreported demand actually increases and is not billed. Suppose that number is used
21 to calculate rates and assume further that AECA is correct that, at least initially, the
22 AT&T Alascom misreporting continues and increases and AECA bills 339,164,997
23 minutes in 2004. At that point, AECA will have billed and recovered its entire traffic
24 sensitive revenue requirement in 2004. Additionally, at that point, GCI will have
25 paid substantially more than it should have paid if actual, fully reported demand had
26 been used, because use of the lower demand figure increased the per minute rate.
27 AT&T will have paid less than it should have paid because of its misreported demand.

1 When AECA later bills AT&T Alascom for over 52 million additional minutes
2 that were initially misreported, AECA will receive additional revenue beyond its
3 approved revenue requirement. However, GCI will have paid the final rate
4 established in this proceeding, and at that point GCI will have no way to recover any
5 of the additional amounts that it paid in rates which were too high because they were
6 established based on lower demand.

7
8 Q. ABOUT HOW MUCH WOULD AECA OVER-RECOVER AND HOW MUCH
9 WOULD GCI OVER-PAY IF DEMAND OF 339,164,997 IS USED AND AN
10 ADDITIONAL 52 MILLION MINUTES ARE THEN BILLED?

11 A. Using the 2003 revenue requirement of \$4,406,824, the switching rate per minute
12 at 339,164,997 would be \$.013 per minute and the rate at 391,192,231 would be
13 \$.0113. At a rate of .0130 and a billed demand of 339,164,997 million, AECA would
14 bill all carriers for a total of \$4,406,824. If AECA then bills AT&T Alascom for 52
15 million additional minutes, AECA will retain the entire additional amount of
16 \$675,998. Assuming carrier market shares based on 2003 billed minutes, GCI will
17 have over-paid \$250,089. GCI will have no way to recover the harm done by
18 Alascom's mis-reporting and AECA's mis-billing.

19 Q. WILL AECA RECOVER THEIR REVENUE REQUIREMENT IF DEMAND
20 OF 391,192,231 IS USED?

21 A. If demand is set at 391,192,231, AECA will bill GCI at the appropriate per minute
22 rate. AECA will be made whole when it bills AT&T Alascom for the appropriate
23 additional minutes that are initially misreported. In the end, all parties pay the proper
24 amount and AECA recovers its revenue requirement.

25 Q. DOES AECA HAVE ANY CONTROL OR RESPONSIBILITY OVER THE
26 MIS-REPORTING AND MIS-BILLING OF INTRASTATE TRAFFIC?

1 A. Well, first I would like to thank and commend AECA for pursuing its audit of
2 AT&T Alascom. AECA has acted responsibly and appropriately in that regard. I
3 believe that it is important for AECA to continue to have a strong economic
4 motivation to fully recover its traffic sensitive revenue requirement.

5 If the demand amount proposed by AECA is used, then its incentive to pursue
6 mis-reported minutes will be greatly diminished. Again, remember, the demand
7 proposed by AECA would enable it to recover its full traffic sensitive revenue
8 requirement in 2004 even if the misreporting continues and increases. Because
9 AECA would wholly recovered its revenue requirement it would have little economic
10 motivation to spend additional time, money, and effort in pursuing Alascom AT&T's
11 missing minutes.

12 This outcome would worsen an already bad situation. AECA already bears
13 only a small portion of the risk of under-billing intrastate minute because it bears no
14 risk at all regarding its non-traffic sensitive revenue, which is six to seven times the
15 size of the traffic sensitive revenue. The other interexchange carriers bear all the risk.

16 If demand of 339 million minutes is used and 339 million minutes are billed in
17 2004, even though actual, fully reported demand is 391,192,231, then GCI overpays
18 not only \$249,731 in switching charges but an additional \$1.5 million dollars in non-
19 traffic sensitive charges. GCI bears the brunt of under-billing AT&T Alascom.

20 Q. HAVE YOU PREPARED AN EXHIBIT THAT ILLUSTRATES THE
21 VARIOUS CALCULATIONS DISCUSSED ABOVE?

22 A. Yes, it is attached as ET-1.

23 Q. ARE THERE ANY OTHER WAYS TO ADDRESS THE CHALLENGE
24 PRESENTED BY THE FACT THAT AT&T ALASCOM IS MISREPORTING
25 INTRASTATE MINUTES?

1
2 A. Two points. First, I agree totally with AECA that the Commission should require
3 AT&T Alascom to immediately begin reporting access charge minutes properly. As
4 discussed herein, the continued misreporting creates significant problems in
5 developing ongoing access charge rates.

6 Second, the Commission could declare AECA's traffic sensitive rates interim
7 and refundable until after the issues surrounding AT&T Alascom's demand are
8 resolved. Final rates would be determined at a later date based on corrected demand,
9 and revised bills, both increases and decreases, would be issued. This is perhaps the
10 only way that both AECA and GCI can be fully protected. However, I would caution
11 that taking this step would raise many complex new issues that would have to be
12 resolved when it came time to establish and bill final rates based on corrected
13 demand.
14

15
16 Q. ARE THERE ANY OTHER ISSUES REGARDING AECA'S DEMAND
17 PROPOSAL?

18 A. Yes. GCI does not believe that any "projections" of increases or decreases in
19 demand into the year that rates are going to be in effect are, or should be allowed.
20 This issues was addressed extensively last year. In large part, this is a legal argument,
21 and I will allow our lawyer to address the legal issues. In part, there is also a factual
22 argument of whether AECA's proposed projection is sufficiently known and
23 measureable. I do not believe that it is. AECA's projection simply assumes that
24
25
26

1 demand in 2004 will be misreported by two times the amount of the misreporting that
2 occurred in 2003. That does not appear at all reasonable.

3
4 Q. DOESN'T YOUR POSITION THAT PROJECTIONS SHOULD NOT BE
5 ALLOWED CONTRADICT YOUR PROPOSAL TO USE 391,192,231, WHICH IS
6 GREATER THAN 2003 BILLED DEMAND?

7
8 A. Not at all. My proposal involves a correction of historical data that has been
9 misreported. That is entirely different from an uncertain projection of data into the
10 future.

11 Q. DOES THIS CONCLUDE YOUR TESTIMONY?

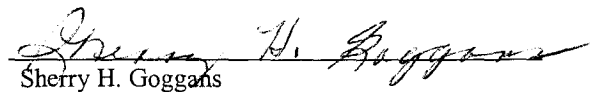
12 A. Yes.

13
14
15 CERTIFICATE OF SERVICE

16 I hereby certify that on the 13th day of February, 2003, a copy of the foregoing was hand delivered to:

17 Robin O. Brena, Esq.
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25
26 
27 Sherry H. Goggans

28 C:\Documents and Settings\echambers\Desktop\Prefiled Testimony of Emily Thatcher.doc

AECA demand effects

ET-1

	<u>traffic sensitive</u>	<u>bulk bill</u>
AECA revenue requirement 2003	\$ 4,406,824	\$ 26,339,646

2003 traffic percentages (derived from AECA traffic sensitive billing database)

Alascom	47.4%	47.4%
GCI	42.7%	42.7%
ACS LD	7.8%	7.8%
MCI	2.2%	2.2%
	<u>100.0%</u>	<u>100.0%</u>

(assume bulk bill shares approximately equal traffic sensitive shares)

Scenario one: AECA demand set at 339,164,997

resulting rate/minute 0.0130

Estimated payments using 2003 traffic percentages and initial billed minutes of 339,164,997

	<u>traffic sensitive</u>	<u>bulk bill</u>	<u>minutes</u>
Alascom	\$ 2,087,243	\$ 12,475,480	160,641,724
GCI	\$ 1,880,416	\$ 11,239,271	144,723,562
ACS LD	\$ 343,852	\$ 2,055,209	26,464,098
MCI	\$ 95,313	\$ 569,686	7,335,612
	<u>\$ 4,406,824</u>	<u>\$ 26,339,646</u>	<u>339,164,997</u>

Additional minutes billed to Alascom: 52,027,234

		<u>adjusted market share</u>
additional Alascom payment	\$ 675,998 \$ 1,843,887	54.36%
AECA retains	\$ 675,998	
GCI credit	\$ - \$ (1,494,785)	37.00%
ACS LD credit	\$ - \$ (273,336)	6.76%
MCI credit	\$ - \$ (75,766)	1.88%

final AECA revenue \$ 5,082,822 \$ 26,415,412

<i>overearning by AECA</i>	<i>\$ 675,998</i>
<i>overpayment by GCI</i>	<i>\$ 250,089</i>
<i>overpayment by ACS-LD</i>	<i>\$ 45,731</i>
<i>overpayment by Alascom</i>	<i>\$ 367,502</i>
<i>overpayment by MCI</i>	<i>\$ 12,676</i>

Scenario two: demand set at 391,106,296

rate/minute

0.0113

Estimated payment using 2003 traffic percentages and initial billed minutes of 339,164,997

	<u>traffic</u> <u>sensitive</u>	<u>bulk bill</u>	<u>minutes</u>
Alascom	\$ 1,809,647	\$ 12,475,480	160,641,724
GCI	\$ 1,630,327	\$ 11,239,271	144,723,562
ACS LD	\$ 298,121	\$ 2,055,209	26,464,098
MCI	\$ 82,636	\$ 569,686	7,335,612
	<u>\$ 3,820,731</u>	<u>\$ 26,339,646</u>	<u>339,164,997</u>

Additional minutes billed to Alascom 52,027,234

			<u>adjusted market</u> <u>share</u>
additional Alascom payment	\$ 586,093	\$ 1,843,887	54.36%
AECA retains	\$ 586,093		
GCI credit	\$ -	\$ (1,494,785)	37.00%
ACS LD credit	\$ -	\$ (273,336)	6.76%
MCI credit	\$ -	\$ (75,766)	1.88%
AECA revenue	\$ 4,406,824	\$ 26,339,646	
<i>overearning by AECA</i>	\$ -		
<i>overpayment by GCI</i>	\$ -		
<i>overpayment by ACS-LD</i>	\$ -		
<i>overpayment by Alascom</i>	\$ -		
<i>overpayment by MCI</i>	\$ -		